UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

Distr
LIMITED

E/ECA/TRADE/88/20
ECA/MULPOC/Tangier/E.IX/3
27 January 1989
Original: FRENCH

ECONOMIC COMMISSION FOR AFRICA

MULTINATIONAL PROGRAMMING AND
OPERATIONAL CENTRE (ECA/MULPOC)
FOR NORTH AFRICA

Ninth Meeting of the Committee of Experts
and Ninth Meeting of the Council of Plenipotentiaries
Tangiers (Morocco, 30 January - 3 February 1989

LC/MAR/28.

ALTERNATIVE PATTERNS OF DOMESTIC TRADE STRUCTURES AND MECANISMS FOR THE ESTABLISHMENT OF MORE RATIONAL DISTRIBUTION CHANNELS AND DOMESTIC FINANCIAL MARKETS

Introduction

1. During the colonial period, the major powers imposed economic and commercial policies on most African States which were orientated primarily towards the satisfaction of their own needs for primary products. Thus, the commercial firms, which were mainly subsidiaries of transnational corporations, exported agricultural and mineral primary products to the "mother country" and imported from them finished products for the satisfaction of the demands of the minority population, living in the urban centres. At the same time, the production of major consumer goods necessary for the local population living in rural areas, which were almost all remote, was left to the initiative of isolated national producers deprived of technical and financial resources.

2. Since independence, most African countries have taken measures to change the situation, but some of them have not yet succeeded in bringing about in-depth changes in the production and domestic trade structures which they inherited. It must be stressed, however, that all the African countries are aware of the absolute necessity of making domestic trade an instrument of socio-economic development. At the second extraordinary session of the Assembly of Heads of State and Government, held in Lagos, Nigeria, in April 1980, the Heads of State and Government of the Organization of African Unity recommended that particular attention be given to the expansion of domestic trade in order to increase its contribution to the socio-economic development of member States. In July 1985, the Heads of State and Government of the OAU adopted Africa's Priority Programme for Economic Recovery (1986-1990), which emphasized the necessity of developing domestic distribution systems and of taking measures to encourage the consumption of locally obtainable products.

3. Over the present decade, the Economic Commission for Africa has developed and implemented a work programme aimed at helping member States to put into effect decisions on domestic trade taken by the Heads of State and Government. The present report, submitted at the request of the MULPOCs, is part of this programme. Its main aim is to formulate, with regard to African Governments, several measures which, when adopted, would contribute to the improvement of the present conditions of domestic trade. The report deals first with production characteristics and the nature of imports destined for domestic trade and then the present situation in the sector and the major problems and obstacles to the development of domestic trade and the legal framework. Lastly, it puts forward practical measures for the development of domestic trade in Africa.

CHAPTER I

MAJOR CHARACTERISTICS OF PRODUCTION AND THE NATURE OF IMPORTS DESTINED FOR DOMESTIC TRADE

A. Composition, trends and importance of food crop production

4. Agriculture is an important activity in most African countries. Table 1 shows a level of participation in the agricultural sector of the African population. The latest available figures show that in 1985, over 65 per cent of the total population were actively engaged in agriculture in Africa as a whole.

Table 1. Agriculture in African economies.

Region	Year	Population		Economic active Population		
		Total	Agriculture	Total	Agriculture	% in agriculture
		in millions		in millions		
Africa	1965	317	233	132	101	76.4
	1970	361	257	148	110	74.4
	1975	413	283	166	118	71.5
	1980	480	313	189	130	68.7
	1985	555	346	214	140	65.5

Source: FAO, Production Yearbook, 1986

5. Agriculture, therefore, remains the mainstay of African economies because it employs more than 60 per cent of the economically active population, provides the bulk of the food for the population and is an important source of exports. The table also shows that although high, the proportion of the active population engaged in the agricultural sector, has continued to decline since 1965: from 76 per cent in 1965 to 65 per cent in 1985. There are several reasons which explain this trend, including the rural exodus, an increasing phenomenon in most African countries. Some countries, however, continue to show a high rate of employment in the rural sector, notably Burundi, Rwanda, Burkina Faso, Mali, Comoros, Mozambique, Niger, the United Republic of Tanzania and Uganda, which in 1985, had a level than 80 per cent of the active population employed in agriculture.

6. Agricultural production in African countries has shown pronounced fluctuations. According to FAO data, production rose by 1.83 per cent in 1984, by 7.35 per cent in 1985 and by 3 per cent in 1986, while the annual average cumulative rate of growth was 2.31 per cent during the period 1980-1986. Moreover, the levels of performance of the agriculture sector, which have prevailed during recent years, are below the actual potential of the

sector, since agricultural production in the continent remains handicapped by various detrimental factors, including the degradation of arable land, the insufficiency or lack of inputs, climatic hazards, the absence of substantial agricultural credits and the insufficiency of technical advice to the farmers. In fact, in must be remembered that agricultural production, especially of food crops, is in the hands of subsistence farmers and the exclusive concentration on the production of food crops for either external or domestic trade is rare. Furthermore, the bulk of food production stems from small farmers using only basic tools and very little fertilizer. Apart from the fact that they continue to favour cash crop production, some African Governments have only small numbers of agricultural technicians capable of training farmers little experienced in modern agricultural techniques who are largely women. All these factors result in short-fall in production and of trade.

Table 2. Growth rates of agricultural production by subregion.

Subregion	1984	1985	1986	1980-1986
Developing Africa	1.83	7.35	3.00	2.31
North Africa	-1.01	10.03	2.95	2.73
West Africa	7.41	6.84	1.65	2.50
Central Africa	3.06	4.25	2.43	1.40
Great Lake Countries	-2.22	3.62	2.65	2.30
East and Southern Africa	-0.04	5.11	5.18	-1.12

Source: "Exponential growth rates", FAO computer printouts, Rome, 5 December 1985, E/ECA/CM.13/3, p. 67.

7. No analysis of domestic trade is possible without the make-up of that trade being clear. The following paragraphs will attempt to define the major agricultural products involved in domestic trade in Africa. These may be defined from an analysis of the data published by FAO 1/.

1) Agricultural food products

8. The yields of the major crops grown in the different subregions of the continent are determined by the prevailing conditions: in other words, food production in Africa is subject to fluctuations caused largely by climatic

1/ Source: FAO Production Yearbook, volume 39.

hazards and furthermore, government action is such as to influence both the range and volume of agricultural food products. According to a recent ECA report, 2/ in many African countries, agricultural food production greatly improved in 1985 mainly due to the good climatic conditions which the region enjoyed. The main food crops grown in the subregions will be defined in subsequent paragraphs.

9. In West Africa, there are three major agricultural product groups:

(a) Paddy rice-producing countries: Cote d'Ivoire, Guinea, Guinea-Bissau, Liberia, Nigeria and Sierra Leone, which in 1985 together accounted for 35 per cent of total African rice production, as against 30 per cent between 1979 and 1981; 3/

(b) Root and tuber producers: Benin, Cote d'Ivoire, Ghana and Nigeria, which in 1985 together harvested over 44 per cent of total African production; 4/

(c) Cereal producers: Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, Chad and Togo, whose total harvest was over 20 million tons in 1985; 5/

This relative importance of West Africa in agricultural food production does not imply that all the constituent countries regularly experience production growth. For example, the production of roots and tubers in Ghana fell to 3,823 tons in 1985, from 5,693 tons in 1984.

10. The profile of food production for Eastern and Southern Africa can also be determined from the FAO Production Yearbook. The countries making up the subregion are essentially cereal producers (maize, wheat, millet, sorghum and paddy rice), but they also grow some legumes and tubers. Ethiopia is one of the major cereal producers, growing mainly maize and sorghum. Others are Kenya and Malawi, growing maize, Uganda and Zambia, which produce sorghum, maize and wheat, and Madagascar, where rice-growing underpins the Malagasy economy. The principal producers of legumes are Ethiopia, Kenya, Malawi, Tanzania and Uganda. Roots and tubers are grown in Madagascar, Malawi, Mozambique, the United Republic of Tanzania and Uganda. With the exception of Malawi, where production of roots and tubers is limited to the sweet potato, all the other countries grow manioc. Madagascar also grows sweet potatoes.

11. The main food crops grown in Central Africa are roots and tubers. Of these it must be noted that manioc occupies the prime position in the

---

2/ Study of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM.13/3.

3/ Source: Calculated from data published in the FAO Production Yearbook, volume 39.

4/ Ibid.

5/ Ibid.

agriculture of Cameroon and Zaire. Cereals are grown mainly in the member States of the Economic Community of the Great Lakes Countries (CEPGL).

12. In North Africa, grain is the basis of agricultural food production (wheat, maize and sorghum) and some fruits (dates, lemons and olives) are grown mainly in Algeria, Egypt, Morocco and the Sudan. Small amounts of legumes are produced, as well as sugarbeet which is grown in Algeria, Egypt, Morocco and Tunisia.

(3) Other food crops

13. A consideration of the food crops figuring in African domestic trade is incomplete without the inclusion of livestock and fishing products, which form important elements in food consumption. Livestock rearing occupies an important place in the African economy. In most countries stock-rearing is on traditional lines and the main animals involved are cattle, pigs, sheep, goats and poultry. Thus, according to the FAO statistics, 6/ almost all African countries produce meat, with the principal producers being Egypt, Ethiopia, Kenya, Madagascar, Morocco, Nigeria and the United Republic of Tanzania, which together accounted for 82 per cent of the total volume of meat production. According to the same source, however, growth rate were low during the period under consideration, which may be accounted for by a number of factors essentially of an institutional, technical or physical character according to the country concerned. In fact, the difficulties experienced in livestock production are due to the disadvantageous effects of drought, the different diseases which affect the African stock, the numerical insufficiency of research stations and the low level of investment in control measures against disease and parasites, in the provision of water holes and in pasture improvement. Fishing activities, which are far below the levels they should attain, supply products to the local market, for export and for family consumption. Fishing in Africa takes two main forms: industrial fishing and traditional fishing. Industrialized fishing is practised by companies having access to modern equipment for large scale fishing, preservation and treatment; production is usually for export. Traditional fishing is carried out in the lakes, rivers and lagoons by individual fishermen using nylon nets, or perhaps a canoe. It goes without saying that as long as this activity is carried out with rudimentary equipment, occasionally in far-off areas, that increasing fish production will be difficult and for the foreseeable future, will be destined for the day-to-day supply of the local market.

b. The make-up of industrial production involved in domestic trade

14. Ignoring mineral production, which is not of direct interest to the study, since it is orientated towards markets in developed countries, various aspects of industrial production in African countries show similar characteristics. It must be noted at the outset, that political independence has not yet brought

---

6/ FAO Production Yearbook, volume 39.

about radical changes in industrial production structures. Extractive industries remain dominant and are in the hands of foreign companies; the transnationals. Furthermore, the external processing of primary agricultural produce involves foreign populations who in return, flood the African market with finished industrial products. The extractive industries constitute a pole of development. In fact, however, the development or expansion of agglomerations centred around these activities causes disparities between the rural and urban areas. The foreign investor is little concerned with decentralizing his industrial operations; rather he takes full advantage of existing infrastructures to increase his immediate profit. Moreover, the heavy concentration of revenue in foreign hands does not contribute positively to economic growth processes because of the exodus of capital. As a result, the majority of the indigenous population remains tied to agricultural activities and takes little part in industry. The types of industry which have developed since independence and which are involved in domestic trade are light or consumer industries. The pre-eminence of consumer-based industry in Africa reflects the situation prevailing immediately after independence. Most African countries began their economic development from a weak industrial bases. Even today the proportion of consumer-based industry remains considerable. According to an ECA publication, 7/ in 1985 the share of these industries in the total value added of the manufacturing sector was 68.4 per cent in Nigeria, 62.8 per cent in Cameroon, 79.4 per cent in Ethiopia, 41.4 per cent in Kenya, 66 per cent in Zambia and 53.4 per cent in Zimbabwe. Food product industries, drinks, tobacco, textiles and leather were most important manufacturing industries in 1985. In Zimbabwe, local food processing made up 25 per cent of industrial production; in the Gambia, groundnut and fish processing accounted for 75 per cent of value added in the industrial sector. Even so, however, their growth is not in line with increases in demand. The growth in the import of consumer goods is due to various factors: (i) the limited supply of some indispensable inputs to manufacturing, such as packaging, colouring matter and preservatives of all types; (ii) the under-use of factories in comparison with installed capacity and poor management; to which must be added; (iii) the inadequate technological options and the often disadvantageous terms for the transfer of technology. All these, together with other factors such as the concentration of industrial production units in urban areas, the high cost of supplying agricultural primary products to rural areas and the under-utilization of industrial capacity, lead to an increase in production costs which raise prices to the consumer and depress domestic demand.

7/ Study of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM.13/3.

C. Imports of consumer goods

15. The import of consumer goods is usually a response to the desire to find substitutes for insufficient national production. In recent years, African countries, with few exceptions, have registered food deficits, especially of cereals, showing that there is an unfulfilled local demand. Faced with stagnation in the internal supply of consumer goods, Africa must pay high prices for food imports and count upon aid from developed countries. The underproduction of foodstuffs, the food habits of local populations and trade policies all determine the type and amounts of imported consumer goods. Trade in manufactured goods, including consumer goods, in African countries represents a deficit in the trade balance. The size of this deficit is shown in the following table.

Table 3. Trade in manufactured goods in African countries (in millions of $US)

	Exports		Imports		Trade balance	
	1981	1985	1981	1985	1981	1985
North Africa	2102	2140	24884	22893	-22782	-20753
West Africa	937	573	21240	12911	20277	-12338
Central Africa	657	822	3226	3147	-2569	-2325
Eastern and Southern Africa	2428	2095	8008	6177	-5580	-4082
Total	6161	5630	57358	45128	-51197	-39498

Source: ECA secretariat, E/ECA/CM.13/3.

CHAPTER II

CURRENT DOMESTIC TRADE

16. Domestic trade may be defined as the sum total of activities intended to ensure the exchange of goods and services between the producer and any given consumer. Its role is to establish a direct link between two economic agents. This function can only be fulfilled if certain facilities are present. Thus methods of communication and transport, finance and sufficient commercial operatives are indispensable to the smooth operation of domestic trade. The current trading conditions found generally in Africa must, therefore, be analysed.

A. Economic operatives involved in domestic trade

17. First, it should be noted that domestic trade stems both from the private sector in countries with a market economy and from the state sector in those with a centrally planned economy. In the private sector, there are three major types of commercial operative: (i) individual operatives (nationals and foreigners); (ii) marketing co-operatives; and (iii) parastatals. Traditional indigenous traders are involved in selling local agricultural produce and some imported consumer goods. Foreign commercial companies, mainly subsidiaries of transnationals corporations, are engaged in import and export; wholesale trading, from bases in urban centres. Marketing co-operatives, set up by nationals of the country concerned are engaged in trade in agricultural produce. Following the realization that the supply of products was often scattered, the public authorities took measures to encourage the grouping of traders, but the degree of development of this co-operative movement varies from country to country. The distribution of some goods, whether local or imported, particularly those for immediate consumption, is limited to parastatal organizations. Since independence, some countries have experienced an expansion in the numbers of middlemen, usually national traders, operating between the producer or importer and the final consumer and also a specialization of local traders in particular fields. To determine the role of the middleman, the markets in which they operate must be analysed.

B. Distribution

(1) Organization

18. Distribution may be defined as being a commercial function aimed towards putting at the disposition of consumers or users goods obtained either locally or by import. Distribution systems may be analysed in two ways:

(a) By method of distribution, according to the type of activity, i.e., wholesale trade, retail trade and co-operatives;

(b) By the tools available to the distributor, such as transport, warehousing and stockpiling.

(i) Wholesale trade

19. The wholesaler is not involved in direct sales to the consumer or user, but rather to an intermediary who may be a retailer or a small-scale wholesaler. Since this business involves enormous investment in material, transport equipment, warehousing and stock, it is carried out by foreign commercial companies situated in urban centres owned or managed in Africa by nationals from, for example, Greece, the Lebanon and the Indian sub-continent. They are mainly concerned with imported or locally manufactured goods. Individual traders may also be involved in this type of business, but they are hampered by a lack of adequate financial means. The absence of wholesale trade in the main areas of production and consumption lengthens the distribution circuits because of the increase in the number of intermediaries and causes an increase in prices, prejudicial to the final consumer.

(ii) Retail trade

20. Retailers obtain their supplies from national and foreign wholesalers and sell to the consumer. It is possible, however, that the wholesalers or manufacturers have developed their own retail distribution systems, as in the case of soft and alcoholic beverage manufacturers in most African States. Equally, some retailers are involved in the small-scale wholesale trade. Most activity takes place in rural areas, which are often poorly served and this has led the public authorities to exercise strict controls in the interest of the consumer.

(iii) Intervention by national authorities

21. The measures undertaken by African States fall within the framework of their respective economic systems. Thus, some have created direct control mechanisms over distribution, while others have attempted to facilitate the commercial activities of private agents. In matters of institutional support, most African countries have set up authorities such as ministries or departments, charged with the direction and regulation of domestic trade. Many countries have revised their laws governing domestic trade in order to reorganize and improve domestic distribution circuits. For example, in 1984 Niger enacted new legislation to reorganize the domestic trade sector. Since 1975 the Ethiopian Government has totally controlled access to trading by individuals and public sector involvement in distribution. African Governments usually regulate entry by foreigners into commerce and into wholesaling by setting maximum stocking levels. In Ethiopia, the maximum capital allowed per enterprise is $US 100,000 or $US 250,000, a/ depending on whether trading is retail or wholesale and licences are necessary if the capital involved

---

a/ Structure of domestic trade: Summary report on five African countries (Cameroon, Ethiopia, Niger, Senegal and Sierra Leone), E/ECA/TRADE/84, page 11.

because it is thought expensive. It could nevertheless assist countries where distances are great and would open up interior regions by making some necessary goods available, such as perishable agricultural products and drugs.

(b) Facilities for warehousing and stockpiling

54. State warehouses are set up in production areas when there is state intervention in the marketing of agricultural food products or of other goods such as fish products. Peasants do not enjoy the same facilities. Their products are usually piled up in make-shift stores, in the corners of houses or even in the open air at the mercy of the elements, a factor which aggravates post-harvest losses. Sometimes the agriculturalists themselves finance collective barns. The distributors use warehouses concentrated in port areas, for imports, or in the production areas, for goods manufactured locally. With regard to stockpiling facilities, most African countries have some grain silos sited particularly in urban areas and belonging usually to public organizations involved in grain marketing. Public intervention of this nature, however, has not reached sufficient proportions to ensure food security; furthermore it is noticeable that African Governments favour investment in stockpiling activities in urban areas rather than in the countryside.

C. Financial mechanisms in domestic trade

(a) Public finance: government policies and programmes

55. Among the measures facilitating trade, finance occupies the prime position. The different forms of finance will be considered. The expedient used by the state to finance domestic trade is that of public investment programmes. In the agricultural sector, the state has often planned and financed projects without good profitability. The share of investment in agricultural export projects, however, is proportionately less than that of products which are directly concerned in domestic trade. In the industrial sector, in most African countries, investment seems to have taken into consideration the needs of the domestic market, for example in the financing of agro-food and textile industries. The state no longer limits its intervention to financing sectors producing goods destined for the domestic trade sector, it also helps the agriculturalists and small traders. After realizing that these groups had difficulty in securing commercial loans, the state has set up agricultural credit institutions, such as the agricultural credit banks, to provide for the urgent financial need of agriculturalists and it has tried to encourage national economic development banks to grant loans to the small farmers and traders.

(b) Commercial loans: private banks and their activities

56. It is generally agreed that by nature, the banking system does not stimulate the development of domestic trade in Africa. The private banks which operate in most African countries are the subsidiaries of parent companies situated in the metropolitan countries. As a result, they are only interested in financing export and import operations which are often run by foreigners and a few nationals of sufficient financial means. Sometimes the private banking sector grants credit to parastatal corporations engaged in agricultural

marketing. They are often granted seasonal bridging loans. As mentioned above, the state does help small farmers and traders to finance their operations. This group has limited access to commercial loans because the guarantees demanded by the private banking institutions are greater than those which could be demanded for such activities. Moreover, private commercial banks in principle only grant very short term loans which are not adaptable to seasonal variations in production. Faced with this situation, some commercial operators self-finance their activities or have recourse to other informal sources of finance, such as "tontines". According to information received in ECA, 80 per cent of people engaged in commerce in Sierra Leone self-financed the setting up of their enterprises. The majority of Cameroon small businessmen have recourse to "tontines", while in Senegal commercial banks are involved in external trade and the National Development Bank lends only 2 per cent of credit to the commercial sector. Commercial loans in Ethiopia are granted as a priority to co-operatives.

CHAPTER III

PRINCIPAL PROBLEMS AND OBSTACLES TO THE DEVELOPMENT OF DOMESTIC TRADE

27. The problems and obstacles which impede domestic trade in Africa must be analysed.

A. Supply structures: production and imports

28. The importance of agriculture in the economies of African countries has already been shown and equally the shortfall of food production destined for African domestic trade has also been mentioned. Several common salient points can perhaps explain this latter phenomenon. The first factor stems from the very nature of African agricultural economies. It will recalled that the first objective of the colonial systems was to develop export crops to satisfy the needs of the colonial powers. Since independence, African countries have not radically changed the production structures inherited from the colonial era. Crop swapping has continued to be favoured by relying upon new factors of production in order to increase the receipts of foreign exchange necessary to pay for imports and for the implementation of development projects. Foreign exchange and external support, however, have always been insufficient, so much so that the volume of investment in the agricultural sector has not yet shown any substantial increase. Indeed, according to an ECA publication, 2/ the resources allocated generally proved inadequate and the level of domestic official investment in the agricultural sector remained far below the 20-25 per cent of total such expenditure recommended in APPER". This policy has had the effect of relegating the development of food products to fulfil the domestic demand of the local populations into second place. Another factor explaining the shortfall of food production stems from the agricultural productive system operating in most African countries. Land is cultivated by small farmers using rudimentary production tools and little fertilizer. This arduous work means that the farmer and he be content with subsistence harvests and the occasional marketable surplus, with the result that they are progressively discouraged from agricultural work. The rural exodus increases. Moreover, a considerable proportion of the rural population uses the barter system, which means that the exchange sector of the African rural economy integrates with difficulty into the modern monetary sector. The peasant also has other problems, he often cannot find out for himself whether markets exist for his products or the effective potential demand for his goods. This lack of adequate organization in the marketing of consumer goods influences the volume of goods exchanged in the domestic sector.

2/ Survey of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM.13/3, p. 90, para. 235.

B. Level of demand

29. It has been shown that food production is not necessarily a function of demand and that external support in terms of imports and food aid are palliatives for this insufficiency. Two major factors determine demand both for local products and for imported goods; namely income levels and the food habits of the consumer. Economic dualism, which characterizes African economies, is found even at the level of local consumption. There are clear differences in average buying power and food habits between urban and rural areas. These differences are such as to impede inter-zonal and inter-district transfers. The scale and structure of the markets, especially in the rural areas, is evolving very slowly. Indeed, several years after independence, local and inter-district exchanges remain feeble and are concerned essentially with agricultural food products obtained locally and a few manufactured consumer goods, such as soap, fertilizers and clothes. In some countries a change in consumer habits has been noticed in favour of certain imported goods, such as rice and other cereals. In the rural areas, part of the marketable surplus is sent to nearby urban centres. Demand is more diversified and larger in the urban centres, where there is a greater range of incomes, variety of consumption habits and a denser distribution system. In the regular markets of urban centres are found the major proportion of locally manufactured or imported products and a few raw products from the rural areas.

C. Organization of domestic trade

30. Preceding sections have examined the organization of domestic trade as a function of the economic systems existing in African countries. It has been shown that the number and type of economic operators functioning in the sector depended precisely on the economic system. In market economies within Africa, the national authorities intervened to regulate the functions of each category of operator in the national commercial system. Some governments, however, do not take the regulatory measures necessary with the result that there is no clear division between wholesaler, small-scale wholesaler and retailer. In other countries, many commercial operators combine all three functions which leads to speculation within the distribution system causing a rise in prices prejudicial to the consumer. Some governments take no initiative to encourage the grouping together of traders with the result that there are few professional trading organizations, in strict collaboration with the national authorities, could take coherent and concerted action to set up an organized distribution system. In most African countries, the chambers of commerce, agriculture and industry are rarely involved with aspects such as promotion of domestic trade. Lastly, from the institutional point of view, the organizations charged with developing domestic trade do not have sufficient trained management and personnel.

D. Distribution facilities

31. In terms of stockpiling, the facilities that exist are generally feeble. Food production varies from year to year depending on climatic conditions and because appropriate measures are not taken early enough to avoid excess production losses. Since most stockpiling installations are sited in towns, usually the capital, this means that there are post-harvest losses from areas far from the storage areas. Moreover, storage facilities are often constructed

CHAPTER V

THE ROLE OF DOMESTIC TRADE IN THE ECONOMIC DEVELOPMENT OF AFRICAN STATES

33. Although development is impeded by numerous obstacles, some of which have already been considered, domestic trade is nevertheless an important sector in African economies. The role that it can play in the economic development of the country will be briefly considered.

A. Influence on internal development processes

34. Domestic trade is often not classed by African countries as being a vital sector because it does not directly bring in foreign currency. It must be remembered, however, that its development may be a valid influence on the development of several countries. By definition, the domestic trade of a country includes the totality of commercial activities involved in the exchange of goods within a given territory; that is, from production to consumption. In other words, domestic trade puts available the locally produced or imported goods to the user or consumer. Because it provides outlets for available goods within the national area, it plays a part in the growth of national production. It also has another role, that of facilitating the distribution of national revenue and it influences the development process by giving employment to a part of the national population. Well-organized domestic trade also reduces the disparities existing between urban and rural areas, by attracting investment into more isolated areas. The effects of domestic trade on the development process should lead national authorities to give more attention to its expansion.

B. Effect on African external trade

35. The present organization of domestic trade in Africa dates from the colonial era and is the reason for the weakness of the sector. Instead of developing domestic markets, the ex-colonial powers established a production and distribution system aimed at satisfying metropolitan needs. This situation has not basically changed. The development of domestic trade, however, can both intensify and diversify the structure and destinations of external trade from African countries. African exports are mainly primary products. Because of the lack of rational organization of domestic trade, marketable surpluses as a rule are limited, unpredictable and irregular. Farmers tend to produce only enough to satisfy their own needs (subsistence) and therefore, sell very little. In contrast to export organizations, the marketing organization of products produced locally is very ineffective. Organized collection and distribution can help both the local and international flow of goods available domestically. National authorities have an important role to play in outlining priority action aimed at developing domestic trade in such a way as to increase its contribution to the internal economic development process and to raise external trade levels. The alternative arrangements which national powers could initiate to develop domestic trade will be considered in the following chapter.

CHAPTER V

ALTERNATIVE PATTERNS FOR THE DEVELOPMENT OF DOMESTIC TRADE

36. The drawing up of master plans for domestic trade development presupposes an appreciation of all the problems which handicap the growth of the sector. The present chapter, therefore, will propose solutions to the obstacles which have already been defined. The recommendations which are not exhaustive, deal with the legal framework, the structure of domestic trade, facilitation measures and the interpenetration of urban and rural markets.

A. Legal framework, legislative and institutional measures

37. The propositions put forward with regard to the public authorities, involve several measures which should be adopted to smooth out present irregularities in the sector. Domestic trade can only make a valid contribution to economic development in any country if it is controlled, which implies a better organization of the commercial operatives engaged in the sector. It has been shown before, that the personnel structure is complex and that the role of the different operatives is often not clearly defined by national authorities. Thus, several measures are proposed:

(a) The creation of a governmental institution such as a department responsible for promoting domestic trade;

(b) The strict regulation of the conditions of access to commercial dealings, particularly at the wholesale level, which would have the advantage of reducing the risks of breakdown in the trade distribution system;

(c) The clear definition of the function of each type of commercial operative, which would allow a rationalization of distribution networks, taking into particular account the needs of people living in remote areas.

B. Structure and mechanism

38. The reorganization of the structure and mechanisms of domestic trade should involve an adjustment of supply and demand in the domestic market. To remedy the present imbalance, it is important that African governments should continue to adopt measures to diversify both agricultural and industrial production. Private investment, particularly in rural areas, should be encouraged. In order to make the rural sector more dynamic, the process of grouping cultivators into co-operatives should be encouraged which would be lent the necessary facilities. Equally, the rural areas must be industrialized, not so much by setting up large industrial complexes but more by encouraging private investment in agro-industries. The expansion of agro-industry in rural areas demands that national authorities take a series of measures, such as the direction of investors, the granting of investment loans on soft-term conditions, the adoption of protective measures for production units, etc. The main problems of financing the domestic trade sector have been dealt with previously. The development of domestic trade involves the need to finance investment and working capital. The lack of specialized banks to finance domestic trade aggravates the situation. Thus, it would be useful to examine

the possibilities of creating a national bank specialising in financing domestic trade or at least of reinforcing the structure of commercial loan sections of development financing institutions and of other commercial banks operating in the country. It would also be desirable to increase domestic savings, particularly in rural areas, in order to increase the possibilities of granting loans.

C. Facilitation

39. Any proposal to improve the facilitation of domestic trade must concentrate on the transport problem, given its essential nature. Any solution must lead to:

(a) The opening up of isolated areas in order that remote consumers may be reached;

(b) A lowering in transport costs.

In this aspect, it is necessary to co-ordinate the development objectives of the productive sectors of the economy with those of transport; to create additional infrastructures of local importance to ensure the provision of local markets for the most remote populations; to maintain the existing networks and to regulate tariffs in order to safeguard the interests of the user and to protect the consumer.

40. Existing facilities for warehousing, stockpiling, and cold storage are concentrated in urban areas which facilitates the distribution of goods in these centres. In the rural areas, the best organized sectors are the collection and warehousing of export products. It is necessary, therefore, that African governments continue their efforts to endow the rural areas with storage facilities. This involves a co-ordination of policies aimed at increasing production and opening up the rural areas with those of investing in stockpiling installations in order to make sure that perishable products are not lost.

D. Integration of urban and rural markets

41. The action by national authorities must be orientated essentially towards drawing up fair and beneficial pricing policies for local goods in order to increase the income and buying power of the cultivators and balance as much as possible, the domestic terms of trade. This policy presupposes the establishment and strengthening of price controls on manufactured and/or imported goods at all stages of distribution. The regulating of profit margins must take into account both the interests of the consumer and the fair remuneration of the distributive sector in order to avoid a breakdown in the distribution network, which would be prejudicial to the consumer. These actions would also be supported by an increase in the infrastructures of the rural areas.

42. The dualism in African economies means that the bulk of rural population cultivates subsistence products and operates on a barter system. The market sector in the rural economy is essentially orientated towards the cultivation and export of produce to the former colonial powers. Large commercial companies continue to dominate vital sectors of the economy namely agriculture, industry and mining in African countries. Even the tertiary sector (banks and trade) is directed by these main economic agents. It has been shown that little attention has been given to the development of domestic trade. The supply of products for local markets does not satisfy domestic demand. Considerable imports, particularly of foodstuffs, are necessary to fill this gap. The organization of distribution which is concentrated and best organized in urban centres is inadequate and, in part, is controlled by foreign commercial operators. Indigenous businessmen are involved in marginal activities in the national economy; unable to secure major investment they are excluded from industry and remain limited to purely commercial enterprises. They are, furthermore, in competition with the foreigners who continue in effect to run monopolies, particularly in the import sector and find it easy to secure considerable banking facilities. In spite of the setting up of national financial institutions, the credit sector serving agriculturalists and small traders remains inadequate. Other obstacles impede the growth of domestic trade in Africa. These are the absence of an adequate road network particularly in the rural areas, the lack of warehousing and preservation facilities and the insufficiency of government support measures for the development of rural trade. All these impediments were examined earlier in the study and they have led to the drawing up of proposals to improve the existing arrangements of domestic trade. Particular emphasis has been placed on the role of national authorities in improving current domestic trading conditions. The proposed measures are aimed at the major objective of increasing the participation of domestic trade in the socio-economic development of the continent.